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Via email to: [director@fasb.org](mailto:director@fasb.org)

Technical Director  
Financial Accounting Standards Board  
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**File Reference No. 2012-200, Proposed Accounting Standards Update (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk**

Dear Madam or Sir:

Southern Company appreciates the opportunity to share its views on the Proposed Accounting Standards Update, *Disclosures about Liquidity Risk and Interest Rate Risk* (the "ED"). While we have provided responses to some of your questions, we have also provided some introductory comments that highlight the most significant issues that we believe need to be addressed by the Board in deliberating a final standard. Southern Company is a leading U.S. producer of electricity, and owns retail regulated electric utilities in four states, a growing competitive wholesale generation company, as well as fiber optics and wireless communications networks. Southern Company has 4.4 million customers and more than 42,000 megawatts of generating capacity.

**Introductory Comments**

In general, we support the Board's effort to enhance liquidity risk and interest rate risk disclosures and we commend the Board for proposing a model which recognizes the differences between financial institutions and entities that are not financial institutions. However, we have significant concerns about what the Board is attempting to accomplish through the proposal along with several questions as to how to prepare the proposed information should the Board move forward with the current proposal.

Most significantly, we do not believe that the proposed disclosures will accomplish the Board's objective (as we perceive it) of providing financial statement users with a meaningful measure of liquidity. It appears to us that the Board expects users of the financial statements to compare any entity's cash flow obligations to its available funds to determine the entity's liquidity risk. We assume that the Board expects users to consider any shortfall between an entity's available funds and its cash obligations to be an indicator of greater liquidity risk. If this is the case, we do not believe that the proposed disclosures will accomplish this objective for the reasons that we outline in this letter. In fact, we believe that

evaluating liquidity risk based on a comparison of the two tables that have been proposed will often mislead investors into assuming the risk is greater than it actually is. The reasons for our position are summarized below.

- First and foremost, we believe that understanding an entity's liquidity position is much more involved than merely comparing liquid assets and future obligations and we believe that achieving that through tabular disclosure alone will prove to be very difficult, if not impossible.
- Second, the disclosure of off-balance-sheet obligations, as currently worded, appears to include items that represent **operating** cash outflows, such as purchase obligations, which are typically funded by operating cash inflows. We believe that requiring the disclosure of operating cash flow obligations without any consideration of the operating cash inflows that are expected to fund the payment of those obligations will not provide investors with decision-useful information.
- Third, we note that the cash flow obligations table only requires disclosure of those items for which an entity has committed to pay, to the exclusion of other reasonably expected cash outflows, which potentially distorts the picture of the entity's liquidity position. For example, assume that a utility has plans to construct a new generation facility at a cost of \$1 billion. However, due to the nature of the construction process, the utility never has outstanding capital commitments greater than \$300 million during the construction period. As a result, at any point in time, expected cash obligations of \$700 million or more might be excluded from the table because there is no underlying contractual obligation.
- Fourth, we are concerned because the proposed available funds disclosure fails to take into account an entity's *uncommitted* borrowing capacity through outside third parties (such as banks) or through publicly- or privately-placed debt. Under the assumption that a financially viable entity would typically have access to these sources of funds, we believe that the proposed disclosures will be misleading if these funding sources are not somehow taken into account.

While we believe that the disclosures proposed for financial institutions will provide relevant information to investors, we believe that the FASB should reconsider what information it hopes to convey to investors of entities that are not financial institutions and then propose disclosures aimed at providing that information. If the additional disclosures are finalized as proposed, we believe that the disclosures will not only duplicate information already required for SEC registrants but that they will fail to present an accurate picture of the liquidity position of entities that are not financial institutions for the reasons outlined above.

## Responses to Questions in the ED

### Question 2:

**For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?**

While we do not foresee significant operational concerns or constraints in complying with this requirement, we are uncertain of what is intended to be within the scope of cash flow obligations (paragraph 825-10-50-23M). Specifically, it is not clear whether the table should include cash flows from **all** off-balance-sheet obligations (including those that are expected to be funded through operating cash flows) or just those related to off-balance-sheet obligations that will likely require the use of currently available cash (or assets readily convertible to cash) and/or the borrowing of additional funds. Our confusion stems, in part, from the examples of off-balance sheet commitments provided in paragraph 825-10-50-23F with respect to financial institutions (“operating lease commitments, loan commitments, lines of credit, and other similar arrangements”). While entities that are not financial institutions will typically have similar types of off-balance-sheet **financing** commitments, they will also likely have significant **operating** commitments related to the purchase of raw materials or inventory.

If it was not the Board’s intention to include operating cash flow commitments in the table, we request that the Board clarify its intent in the final standard. However, if it was the Board’s expectation that commitments related to operating cash flows should be included in the table, we ask that the Board reconsider its position and explicitly exclude operating cash flow commitments from the table given the fact that those commitments will typically not change the liquidity profile of an entity. In this regard, we note Item 303(a)(1) of Regulation S-K which requires that an SEC registrant identify “any known trends or any known demands, commitments, events or uncertainties that will result in...the registrant’s liquidity increasing or decreasing in a material way.” We would argue that the focus of the proposed liquidity disclosures should be similar in highlighting any expected changes in liquidity. Unless the entity has experienced significant variability in its historical cash flows or anticipates substantial changes in the future, we believe that this is best accomplished by excluding operating cash flow obligations from the disclosure to focus only on those items that are expected to impact the entity’s liquidity.

If the Board chooses not to differentiate between commitments expected to be funded from operating cash flows and those that will require the use of current funds or the borrowing of additional funds, we believe the Board should consider whether or not off-balance-sheet obligations should represent only the entity’s contractual minimum obligations or its actual **expected** obligations which are often much greater. In this regard, we note that in many of our contracts which require minimum purchase commitments, e.g., contracts for fuel, we expect to purchase significantly more than the minimum amount in order to meet our operating needs. As a result, we believe that, if the disclosure is limited to minimum purchase commitments, it will have limited usefulness to financial statement users. We would therefore ask the Board to require the disclosure of cash flow obligations to reflect management’s expectations as to timing **and amount** in order to present the most relevant information to the users of the financial statements.

Finally, we agree that disclosing expected obligations, rather than contractual obligations, would generally provide a more accurate representation of an entity’s actual future cash flows. But rather than the Board requiring information that is, for the most part, duplicating current SEC requirements, we request that the Board work with the SEC staff to determine whether the current MD&A requirements should be modified to require the presentation of expected, rather than contractual, cash flows.

#### Question 4:

**The proposed amendments would require a quantitative disclosure of an entity’s available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant**

**operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?**

As with the cash flow obligations table, we do not foresee significant operational concerns or constraints in complying with this requirement; however, we request that the Board reconsider the primary purpose of the available liquid funds disclosure. If the available liquid funds table is meant to be used in conjunction with the cash flow obligations table to allow the user to assess an entity's exposure to liquidity risk, as discussed in our introductory comments, we do not believe that it meets this objective.

The ED defines available liquid funds to include unencumbered cash and high-quality liquid assets along with the entity's committed borrowing availability. If the objective of these two tables is for users of the financial statements to compare the entity's expected cash flow obligations with its available liquid funds to evaluate "the risk that an entity will encounter difficulty in fulfilling obligations associated with financial liabilities," then we believe that the available liquid funds table is too limited. Presenting a table that includes only cash, high-quality liquid assets and the entity's current borrowing availability in conjunction with the cash flow obligations table would suggest to the user that these are the primary ways that the entity expects to meet its cash flow obligations. As a practical illustration, this would be similar to suggesting that an individual's ability to pay the balance of their home mortgage should be evaluated based on the cash balance in their checking and savings accounts and any home equity lines that they have been preapproved for. Simply put, it could easily lead a user of the financial statements to conclude that an entity faces a liquidity crisis that does not exist because it fails to take into account the entity's ability to borrow in the capital markets, to meet its financial obligations through the monetization of other financial assets (e.g., accounts receivable), or to settle its obligations without cash.

**Question 6:**

**As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?**

Given that the stated purpose of the liquidity risk disclosures is to "provide users of financial statements with information that helps them assess the risk that an entity will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset," we do not believe that the proposed amendment meets this objective for entities that are not financial institutions. As mentioned in our introductory comments and our response to Question 2, we believe that including operating purchase commitments in the cash obligations table, without considering operating cash inflows, misrepresents an entity's liquidity risk. Even if purchase commitments are excluded from the table, we believe the cash flow obligations table and the available liquid funds table viewed together will not provide an accurate picture of the ability of an entity to meet its obligations as the tables do not take into consideration an entity's ability to raise funds in the debt and equity markets or other ways in which an entity may choose to settle its obligations.

In addition, we are extremely concerned by the requirement for an entity to discuss the reasons for any significant changes in its liquidity position and the actions taken by management in response to those changes in an **audited** footnote. We believe that disclosures of this type related to management's

analysis should be limited to MD&A given the subjective nature and the questionable auditability of those disclosures.

**Question 10:**

**Are the proposed time intervals in the tables appropriate to provide decision-useful information about an entity's liquidity risk? If not, what time intervals would you suggest? Do you believe that there are any reasons that these required time intervals should be different for financial institutions and entities that are not financial institutions?**

Before addressing the issue of time intervals, we would like to first request that the Board reconsider the requirement for public companies that are not financial institutions to provide the proposed liquidity disclosures in interim financial statements. Any significant changes in the liquidity position of a public company occurring during an interim period are already required to be discussed in Management's Discussion & Analysis. Accordingly, we believe that, if the disclosures are required, they should be required in interim financial statements of entities that are not financial institutions only when management has determined that significant changes in the entity's liquidity position have occurred or are likely to occur in the future. Referencing the Board's recently issued discussion paper, *Disclosure Framework*, we encourage the Board to take this opportunity to begin to address the disclosure overload that currently exists by limiting the proposed disclosures to annual financial statements and avoiding the duplicative disclosures discussed below.

Similarly, we do not believe that the annual disclosures should require the presentation of information for the following four quarters for entities that are not financial institutions unless the entity has experienced significant changes in liquidity during the most recent fiscal period and/or unless management foresees potentially material changes in liquidity over the next year. Even as a regulated electric utility with seasonal sales revenue, our cash flow obligations generally do not fluctuate in such a way that the quarterly time intervals proposed would provide meaningful, decision-useful information about our liquidity risk, and we believe that this would be the case for many, if not most, entities that are not financial institutions. Rather than requiring all entities to provide this information, we would propose that the Board require quarterly information for an entity that is not a financial institution only in situations where an entity has experienced, or reasonably expects to experience, liquidity issues.

**Question 22:**

**Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.**

We believe that the proposed disclosures significantly overlap with the SEC's current disclosure requirements for public companies without providing meaningful incremental information to the user. We currently provide substantially the same information as that proposed in the ED in our MD&A and audited footnotes. Rather than require entities that are not financial institutions to provide this information under a GAAP requirement, we would recommend that the Board limit the scope of the amendment to financial institutions. To address any perceived deficiencies in disclosures for entities

that are not financial institutions, we would recommend that the Board propose amendments to ASC 440: *Commitments* to require any additional information that the Board feels would be useful to financial statement users.

### **Conclusion**

We support the Board's effort to improve liquidity risk and interest rate risk disclosures; however, as we have noted, we believe that the proposed amendments in this ED do not meet the objectives outlined by the Board for entities that are not financial institutions.

While we maintain that the proposed disclosures are essentially already provided by public companies in annual and quarterly filings with the SEC, and therefore no amendment is needed, if the Board chooses to go forward with the proposed update, we believe that the Board must reconsider how to effectively present the liquidity position of entities that are not financial institutions.

Sincerely,

A handwritten signature in cursive script that reads "W. R. Hinson".

W. Ron Hinson  
Senior Vice President, Comptroller and Chief Accounting Officer  
Southern Company